A Study on impact of Bancassurance Model on The Financial Performance of selected Commercial Banks

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Abstract – The main objective of this study was to investigate the impact of Bancassurance model on the financial performance of selected commercial banks. For achieving the objectives data was collected from 10 public sector commercial bank. The selection of banks is based on simple random sampling. Under the study bank performance as dependent variables and Cost-to-income Ratio, Yield on Advances, Net Interest Margin, Cost of Deposits, Yield on Funds are designated as independent variable. The major outcome of the study is Yield on Advances, Cost of Deposits, Yield on Funds, Cost-to-income Ratio significantly improves Bank performance. Except, net Margin not have a significant impact on performance of bank.

Keywords—Bank, Bank Performance, Cost of Deposits, Cost-to-Income Ratio, Yield on Funds, Yield on Advances.

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INTRODUCTION

The business of banking around the globe is changing because of combination of worldwide budgetary markets, advancement of new innovations, universalization of saving money tasks and broadening in non-keeping money exercises. Because of every one of these developments, the limits that have kept different money related administrations separate from one another have vanished. The meeting up of various money related administrations has given cooperative energies in activities and improvement of new ideas. One of these is bancassurance.

Bancassurance implies circulation of protection items from the bank's appropriation channel. Also known as Alfinanz, bancassurance can be characterized as a bundle of financial services that can satisfy both keeping money and protection needs in the meantime. Bancassurance mixes insurance products with a bank network. It is one of the key disribution channel in the worldwide insurance industry.

The concept of Bancassurance that started in France, now comprises the overwhelming model in various European and different nations and the equivalent is quick getting up to speed in India too. Bancassurance takes various forms in various countries. Bancassurance has seen an incredible recognition and growth globally. Bancassurance has seen a huge development in Europe but not in USA and Canada.

Bancassurance in a major developed market (France). What form it would take in a country depends on several factors such as economic ,demographic and legislative climate. The demographic profile of a country helps to decide what type of products bancassurance will distribute. The economic situation will determine the trend in terms of turnover and market share. The legislative climate will resolve the boundaries within which bancassurance has to operate.

Severe competition in the banking industry world over and decreasing spreads has made banks scout for new fee-based income to augment their profits. Banks found the new opportunity of generating additional income by leveraging its distribution network and clientele in the form of bancassurance. Also, since insurance is usually a long-term contract, commissions continue to flow in, till the policy is in force, till its maturity. Hence by managing these contracts successfully, banks aim to generate a perennial revenue stream. Additionally, customers in a few countries have also begun thinking of banks as a trustworthy financial supermarket and started availing products and services other than the regular banking products. Hence banks which did not offer these products faced the threat of customers migrating to the universal banks offering the entire spectrum of financial products.

NEED FOR THE STUDY AND STATEMENT OF THE PROBLEM

Despite the improving thesignificance of Bancassurance, there is less or no direct empirical data available on the potential benefits of the Bancassurance model(s) for distribution of insurance practiced at India and the related sources of those benefits. With the privatization of the insurance sector and subsequent permission of government for banks and insurance company tie-ups for distribution of insurance products, the multinational and Indian private sector banks have done a good job on the sales of insurance products.

However, the sales are primarily made to bank customers with whom the banks have very significant relationships. Whether banks can sustain sales to customers over and above the ones who are already there and what is the contribution of Bancassurance to the financial performance of bank.

REVIEW OF LITERATURE

The main sources of banks incomes consisting of personal and commercial loans, Credit cards, maintenance fees, custodial services have been overtaken by changing competition, changes in regulation, shrinking interest rates and changes in customer savings and investment requirements. Consequently, these financial institutions have been forced to fend for alternative sources of income to maintain their interest margins and sustainability.

Jongeneel [1] have noted that banks in the ongoing years have moved from conventional procedures of procuring salary to non-customary techniques, for example, speculation Banking, mutual fundsand securities brokerage. The regularly expanding aggressive nature of the keeping money industry has prompted an expansion in the expense of assets prompting banks thinking of alternative arrangement strategies to guarantee that their advantage edges are kept up.

Kumar [2]stated that bancassurance has been for quite a while, rehearsed by Banks „Passively" either as a method for risk mitigation (ensuring security of assets) . Clients taking advances from banks needed to take protection if there should be an occurrence of death, burglary of propery etc. Home loans, development credits, personal advances must be safeguarded. The banks were profiting be that as it may, the level of expense pay was unimportant. With the influx of Bancassurance, Banks have a chance to expand their income at insignificant expense and balance out their benefits in the wake of decreasing premium edges.

Bancassurance gives more chances to a bank to procure high charge pay requiring little to no effort. Right off the bat, it is substantially simpler for a bank to pitch insurance products to its clients as it has finish information about the money related status of its clients through their spending and reserve funds designs. Also, banks have a simpler way to deal with clients as far as influence to get a protection item, since clients trust their banks in excess of an insurance agency (Kumar, 2006).

Bancassurance gives boundless favorable circumstances to banks. Bancassurance opens ways to new markets for development, there is practically no opposition, and a to a great degree abnormal state of expense salary on speculations because of charging of high premiums. Furthermore, banks get additional protection against loss of benefits, that is, through giving protection to customers to their very own items e.g, personal loan insurance against death or inability.

According to Kumar [2],

"Bancassurance provides additional fee income for banks other than interest income – referred to as fee income".

Jongeneel [1] noted factors such as and evolved e-commerce channel and changes in consumer attitudes leading to the steady decline in interest margins on loans of Commercial Banks from the 1980s. Banks are now investing in Financial Innovation and venturing into areas of diaspora banking, internet banking, Mobile banking, custodial services, shares management, trade and commodity banking and Bancassurance.

Bancassurance as a Bank's strategy to venturing into other areas of business and diversification has positive impacts to its financial performance. Providing a variety of financial services to the same customer base enhances customer loyalty. This could have a positive impact on the long-term earnings of the bank. Jongeneel [1],"stated that, by being a one-stop-shop financial solution, a commercial bank seizes the opportunity to grow in significance. Secondly, Bancassurance provides additional income to the bank known as fee income".

Brealey and Myers [3],"further noted that diversification brings scale, which may make it easier to attract professional management, gain access to international financial markets, or to gain political power in countries where government tries to manage the economy or where laws and regulations are erratically enforced".

Lovelin and Sreedevi [4]," did a study on the Preference of Bancassurance in India. The objectives of the research were to study the awareness of customer on Bancassurance, customer perception on Bancassurance, factors affecting buying of insurance products from banks and a SWOT analysis of Bancassurance. The study adopted and empirical and descriptive approach. Primary data was collected through questionnaires while secondary data was accumulated from publications, insurance magazines, official websites, annual reports and newspapers. The findings noted that, from one hundred respondents, most of the respondents were not known about the Bancassurance. Respondents noted factors such as customer loyalty, positive tax benefits and loan requirements as reasons influencing purchasing of insurance products through banks".

According to Ombonya [5], "lack of awareness is major constrain to insurance penetration in developing countries. Ombonya, further attributes less penetration of insurance to poverty. Same said by Mwati [6], whereby he recommends that banks from managers should improve their efforts of mobilizing their customers to adopt banc assurance".

"emphasizes the requirement for client administration relationship because of low level of awareness. They propose that a viable and clear advertising technique should be set up by the banks to expand awareness and exploit the chances to cross exchange insurance products through their branches. Mwati [6] suggests that advertising methods can be adopted to create awareness to customers since majority are not insured"(Popli and Rao [7]).

Grover and Bhalla [8]," concerning level of understanding of Banc assurance and choice of insurance product among customers of various banks in India concluded that banc assurance could increse financial performance of banks drastically only if customers are aware of it. They further argue that without notable awareness on banc assurance across the customers, the goal of its introduction would be fruitless".

Anshuja and Babita [20]," in their study on customer understand towards Banc assurance established that Banc assurance compared with other distribution methods is a less costly and friendly to customer".

OBJECTIVE OF THE STUDY

- To determine the impact of Bancassurance model on the financial performance of selected commercial banks

SCOPE OF THE STUDY

The scope of the study is limited to banks which distribute insurance policies in Andhra Pradesh.

HYPOTHESIS OF THE STUDY

- Three is no positive relationship between Bancassurance model on the financial performance
- Bancassurance model is not influence on the increasing financial performance of bank

RESEARCH DESIGN AND METHOD

Research Design :

The study used a descriptive design.

Population

In this case, the population of study was the ten public sector banks offering Bancassurance in India.

Sampling Frame

The sampling frame for the present research study would be list of public sector commercial banks.

Sampling Unit

The sample subjects for the present research are selected ten commercial Public sector banks.

Research Strategy

Simple random sampling method is adopted.

Sample Size

Total ten commercial public sector are taken for the study.

Data Collection

The study used secondary sources of data. This data was acquired from Annual reports of ten selected public commercial banks for a period of 10 years, that is, from 2009 to 2018.

Table 1 Sample size

S.No.	Name of the Bank	Sector
1	Allahabad Bank	Public Sector Bank
2	Andhra Bank	Public Sector Bank
3	Bank of Baroda	Public Sector Bank
4	Bank of India	Public Sector Bank
5	Central Bank of India	Public Sector Bank
6	Indian Overseas Bank	Public Sector Bank
7	Punjab National Bank	Public Sector Bank
8	Syndicate Bank	Public Sector Bank
9	State Bank of India	Public Sector Bank
10	Indian Bank	Public Sector Bank

Variables in the study

Independent variable

- Return on capital Employed (ROCE)

Dependent variable

- Yield on Advances
- Net Interest Margin
- Yield on Funds
- Cost-to-income Ratio

Tools of analysis

- Descriptive statistics
- Correlation
- Regression
- ANOVA

RESULTS AND DISCUSSION

Table 2 Pearson correlation coefficients between Bank performance and other independent variables

		Return on Capital Employed
Return on Capital Employed	Pearson Correlation	1
	Sig. (2-tailed)	
	N	100
Yield on Advances	Pearson Correlation	.380**
	Sig. (2-tailed)	.000
	N	100
Cost of Deposits	Pearson Correlation	.321**
	Sig. (2-tailed)	.001
	N	100
Net Interest Margin	Pearson Correlation	.403**
	Sig. (2-tailed)	.000
	N	100
Yield on Funds	Pearson Correlation	.404**
	Sig. (2-tailed)	.000
	N	100
Cost-to-income Ratio	Pearson Correlation	.719**
	Sig. (2-tailed)	.000
	N	100

From table 2, there is a positive correlation between bank performance (ROCE) and other independent variables Yield on Advances, Cost of Deposits(CD), Net Interest Margin(NIM), Yield on Funds and Cost-to-income Ratio with Pearson coefficient of 0.380, 0.321, 0.403,0.404 and 0.719 respectively. This shows that bancassurance model help to increase the performance of the bank.

REGRESSION ANALYSIS

Regression analysis was carried out to find out the influence/impact bancassurance on performance of bank is analysed with the help of regression analysis. Under the study, relationship between the study independent and the dependent variable (ROCE). The regression table 2 shows the total variation accounted for by Cost-to-income Ratio, Yield on Advances, Net Interest Margin, Cost of Deposits, Yield on Funds on bank performance.

Table 3 Regression Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.860a	.740	.726	8.43940
a. Predictors: (Constant), Cost-to-income Ratio, Yield on Advances, Net Interest Margin, Cost of Deposits, Yield on Funds				

The model has coefficient of determination (R^2) of 0.740 indicating that 72.6% of the variations on performance of banks was accounted for Cost-to-income Ratio, Yield on Advances, Net Interest Margin, Cost of Deposits, Yield on Funds. This implies that there are other factors for the remaining variance of 27.4% that are not considered in this study. The study also sought to establish the importance of the model using the analysis of variance technique.

Table 4 ANOVA Result

ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19019.318	5	3803.864	53.407	.000b
	Residual	6695.010	94	71.224		
	Total	25714.328	99			
a. Dependent Variable: Return on Capital Employed						
b. Predictors: (Constant), Cost-to-income Ratio, Yield on Advances, Net Interest Margin, Cost of Deposits, Yield on Funds						

From table 4, the ANOVA results shows the regression model estimatingthe relationship between the performance of banks and Cost-to-income Ratio, Yield on Advances, Net Interest Margin, Cost of Deposits, Yield on Funds was appropriate for the study since the as the p-value = 0.000 obtained was less than α=0.05.

Further analysis to test hypothesis was carried out. To incorporate any interactions among the independent variables the individual variable relationships expressed in the hypotheses were tested through multiple regression model and the regression coefficients obtained are presented in table 5.

Table 5 Regression Coefficients result

Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	15.996	1.691		9.461	.000
	Yield on Advances	.258	.080	.483	3.236	.002
	Cost of Deposits	-.278	.092	-.524	-3.027	.003
	Net Interest Margin	1.069	.685	1.744	1.560	.122
	Yield on Funds	-1.643	.731	-2.505	-2.247	.027
	Cost-to-income Ratio	.782	.058	1.438	13.417	.000
a. Dependent Variable: Return on Capital Employed						

The results indicate that all independent variables except Net Interest Margin had significant effect on bank performance with p value 0.05. From this model it is observed that the hypotheses that are *Yield on Advances, Cost of Deposits,Yield on Funds, Cost-to-income Ratio significantly improves Bank performance. Except, net Margin not have a significant impact on performance of bank.* However, the p value = 0.122greater than 0.05 showed that Net Interest Margin did not significantly affect bank performance. The standardized multiple regression coefficients results from table 5 were used to derive the multiple regression equation relating the dependent variable and all the independent variables.

Y= 15.996+ 0.483X1-0.524X2+1.744X3 -0.2505X4+1.438X5.

Where Y= Bank Performance measure using ROCE, X1 = Yield on Advances(YD), X2= Cost of Deposits(CDs), X3=Net Interest Margin, X4= Yield on Funds and X5= Cost-to-income Ratio. From the model, holding all factors constant, a unit increase in Yield on Advances, Cost of Deposits, Yield on Funds and Cost-to-income Ratio would increase bank performance by 0.483units, -.524 units -2.505 and 1.438 units respectively.

CONCLUSION

In a business environment full of uncertainty and stiff competition banks and other financial institution need a new strategy to not only remain afloat but also make profit. Bank assurance could be one of the strategies they can adopt as the study has shown that it has a positive impact on performance.

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